Headquarters U.S. Air Force

Portfolio Management Lessons Learned

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Portfolio Management Agenda

Why are we here…?

To share installation-level lessons learned

What will we do…?

- **Program Overview**
- **Roles/Responsibilities**
- **Review Portfolio/Asset Management scenarios with the installation panel**
- **REVIEW the Lessons Learned database**

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Together, Portfolio and Asset Management are:

- **AF's long-term oversight of military housing privatization projects**
- **Dependent and complimentary**
- **But not the same**

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Portfolio vs. Asset

Portfolio Management

- High level oversight across the entire program
- Interface with Air Staff and Asset Managers
- Specialized knowledge unavailable to bases

Asset Management

- Ground level interaction with Property Manager
- Interface with Property Manager and AFCEE
- Unique knowledge about operations

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What Portfolio and Asset Management are not:

- **Contract Management**
- **Property Management**
- **MILCON Housing Management**

OVERSIGHT!

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What do they do?

- **Protect AF interests**
- **Manage and mitigate risks**
- **Protect AF investments**
- **Ensure satisfactory housing for our service members**

Portfolio Management

AF Portfolio Manager Roles

Transition Role

- Transition Support to Installations
- Transition tools

Sustainment Role

- Monitoring and Evaluation
  - Overall Project Performance (operational, financial, technical)
  - Benchmarking and Trending Analysis
  - Overall Portfolio Performance
  - Reporting
  - Document Management
- Identification and Problem Resolution
- Fiduciary Responsibilities
- Direct Loans
- Guaranteed Loans

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Tools of the Trade

Transition Services

- Project or “executive” summary
- Catalogue of documents
- Insurance summary report
- Lockbox administration tool

Sustainment Services

- PEP (Semi-Annual)
- Document Oversight (Continuous)
- Lockbox Reviews (Quarterly)
- Project Reporting (Quarterly/Annually)
- Budget Reviews (Annual)
- Insurance Compliance (Annual)
- Compliance Testing (Continuous)
- Annual Site Assessments (Annual)
- Solution Implementation
- Training
- Subsidy Re-estimates (Annual)

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Asset Management

MAJCOM and Installation Roles

MAJCOM Role

- Project oversight
- Guidance to the installation
- Resources as needed

Installation Role

- Chair MRC
- Manage Tenant Referrals / Demographics
- Maintain Waiting List*
- Conduct Tenant Surveys
- Collect and Provide Documents to AFCEE as Required
- Review / Approve Annual Budgets
- PEP Reports
- Manage Design & Construction Oversight (Title II)
- Perform Local Compliance Testing to Ensure Compliance with Project Documents
- Assess Physical Condition
- Oversight of Development
- Quality Control, Security and Operations

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Scenario Themes

Occupancy	**Matching supply and demand**
Communication	**Maintaining stakeholder relationships**
Lease Management	**Following the transaction documents**
Delinquency	**Using military tools to minimize losses**

Occupancy Lessons

Did you know…

Five of the seven closed projects had vacancy problems early in the Project?

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Occupancy Lessons

Situation	**What do we do if…** ***initial vacancy is higher than expected?***
Reaction	**Don’t be surprised!**
Response	**Assess the situation – What are the causes?**
Resolution	**Understand the Project Owner’s options** ▪ **Priority Waterfall** ▪ **Marketing** ▪ **Rent Incentives** ▪ **Upgrade Incentives**

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Occupancy Lessons

Situation	**What do we do if…** ***after 12 months, vacancy is still more than expected?***
Reaction	**Now you can be a little surprised**
Response	**Assess the situation – What are the causes?**
Resolution	**Understand the Project Owner's options** ▪ **Construction / Completed** ▪ **Other eligible tenants** ▪ **Creative solutions (Robins)** ▪ **Other Incentives**

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Occupancy Lessons

Situation	**What do we do if…** ***after 2 years, vacancy is <u>still</u> more than expected?***
Reaction	**Be surprised, you're project is the first one!**
Response	**Assess the situation – financial difficulties?**
Resolution	**Understand the Project Owner's options** ▪ **The Project Owner may contribute additional equity** ▪ **Waterfall exhausted – seeking alternative occupancy solutions** ▪ **Air Force is actively aware and reviewing its options**

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Occupancy Lessons

Situation

What do we do if…
our demographics don't match the target?

Reaction

Don't be surprised!

Response

Assess the situation – what are the causes?

Resolution

Understand the Project Owner's options

- **Unit / Member Based**
- **Target Demographics**

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Recap - Occupancy Lessons

- Occupancy shortfalls are not uncommon
- Causes
  - Unit / Demographic mismatches resulting fro
    - Changes in BAH
    - Changes in the Local Housing Market
    - Deployments
    - Timing of unit completions
- Know the specifics of your transaction
  - Use the priority waterfall
  - Other options
    - Marketing
    - Lease Incentives
    - Contract leases

Communication Lessons

Did you know…

The Asset Manager may communicate with as many as seven or more different stakeholders?

- Project Owner
- Tenant
- AFCEE
- Jones Lang LaSalle
- Property Manager
- MAJCOM
- MRC Chairman

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Communication Lessons

Situation

What do we do if…

the Property Manager isn't receptive to our offers of assistance?

Reaction

Regroup!

Response

Assess situation – what happened?

Resolution

Understand the available resources

- **Relationship building**
- **Education**
- **Transaction documents**
- **Project Owner is obligated to provide certain information**

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Communication Lessons

Situation

What do we do if…

it seems like everyone is on a different page?

Reaction

Don’t be surprised

Response

Assess situation – what are expectations?

- **What are they doing / need to do?**
- **Whose responsibility?**
- **What is the breakdown?**

Resolution

Understand the available resources

- **Call AFCEE / Jones Lang LaSalle to request interpretation and coordinate contact with key stakeholders**

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Communication Lessons

Situation

What do we do if…

the Property Manager is doing something wrong?

Reaction

Don’t be surprised

Response

Assess situation – what is the requirement?

- **Is it clear?**
- **Where did communications breakdown?**
- **What are your other options?**

Resolution

Understand the available resources

- **Transaction Documents**
- **Performance improvement plan**

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Communication Lessons

Situation	**What do we do if…** ***the tenants spread rumors and it hurts occupancy?***
Reaction	**Expect a vocal minority!**
Response	**Assess situation – what is the rumor?**
Resolution	**Understand the available resources** ▪ **Information kills rumor tree roots** ▪ **Tenant in-briefs** ▪ **Installation publications** ▪ **Tenant representatives**

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Communication Lessons

Situation

What do we do if…
the tenants complain?

Reaction

Don’t be surprised

Response

Assess situation

- **Send them to the Property Manager first**
- **Is the complaint valid?**
- **What is the complaint process?**

Resolution

Understand the available resources

- **Transaction documents/Tenant lease**
- **Mediation**
- **Wing commander/MRC**

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Recap – Communication Lessons

- Establish the public/private partnership ideal in your relationship with the Project Owner (joint problem solving)
- Keep Installation leadership informed
- If issues arise, engage AFCEE for assistance/guidance
- Train front-line referral staff on MHPI and what and how to communicate privatized housing issues
- You can never communicate too much with the tenant
- Learn the process for handling disputes, complaints and disagreements

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Lease Management Lessons

Did you know…

100% of the Projects experienced errors or discrepancies in the transaction documents!

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Lease Management Lessons

Situation

What do we do if…

There are errors in the documents?

Reaction

Don’t be surprised!

Response

Assess the significance of the issue

- **Is there a “work around”?**
- **Does it require a revision?**

Resolution

Understand your role

- **Document the issue**
- **Aggregate with other issues**
- **If necessary, work with AFCEE to have documents changed**

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Lease Management Lessons

Situation

What do we do if…

the Project Owner isn't following the transaction documents?

Reaction

Don't be surprised!

Response

Assess the violation

Resolution

Understand your role

- **Determine the appropriate course of action**
- **MRC**
- **Dispute clauses**
- **Default is the last resort! Do not threaten default – only AFCEE!**

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Lease Management Lessons

Situation

What do we do if…
we aren't following the transaction documents?

Reaction

Don't be surprised!

Response

Assess the situation

- **What are we doing we shouldn't?**
- **What aren't we doing we should?**

Resolution

Understand your role

- **Determine the appropriate course of action (usually requires education)**
- **Review the sustainment tools for direction**

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Lease Management Lessons

Situation

What do we do if…

the Project Owner isn't following current AF Policy?

Reaction

They may not have to!

Response

Assess the situation

- **What do the documents say?**
- **Was there an error in the documents?**
- **Can / should the documents be changed?**

Resolution

Understand the options

- **May require new negotiations**
- **Requirement should be formalized**

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Recap – Lease Management Lessons

- Project Owners are not contractors
- Know the documents!
- Adhere to the documents!
- If the prior step is impossible, change the documents!
  - Set expectations for completion
  - Determine the change implications
  - Coordinate changes with stakeholders
- Ensure all final negotiated terms are reflected in the documents
  - Check and double check documents before closing
  - Establish a post-closing document review procedure

Delinquency Lessons

Did you know…

For closed Projects, bad debts range from nearly 0% to 1.25% of revenues?

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Delinquency Lessons

Situation

What do we do if…
Delinquency is much higher than we expected?

Reaction

Don’t be surprised!

Response

Assess the reasons

- **Allotments**
- **Early cancellations**
- **Damages**

Resolution

Understand your role

- **Partner with the Project Owner to find solutions**
- **Tenant education**

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Recap – Delinquency Lessons

- Start the lease and allotment process early
- Work closely with the Property Manager and Finance Office to assess outprocessing procedures
- Use the First Sergeants
- Manage tenant expectations of “normal wear and tear”

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Deal-Side Lessons

- Utilities costs
- Capital Repair and Replacement Assumptions
- Interest rate assumptions (earnings on restricted reserves)
- Bad debt
- Occupancy
  - Projects must compete (policy / quality)
  - Absorption period
- Final terms

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Wrap-up Lessons

- Success requires quality housing, strong occupancy, financial performance and teamwork
- Occupancy issues reflect supply / demand mismatches
- It is critical to establish the joint problem solving relationship with the Project Owner
- No such thing as too much communication
- Know your documents
- Make sure the documents reflect final terms, if not, they may be able to be changed
- Minimize bad debts through
  - Education of tenants
  - Finance office

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Lessons Learned Database

Did you know…

there is an online Lessons Learned database designed to share information and provide a better understanding of privatization issues?

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Lessons Learned Database

Introduction

What is it?	**Online list of lessons organized by topic**
Who uses?	**All privatization stakeholders**
Where is it?	**Accessible via your Portfolio Management website**
When used?	**As needed, but especially after the PEP and site visits**
How use it?	**Point and click**

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Lessons Learned Database

Overview

Access	**Ask AFCEE to setup your login**
Login	**Submit and browse lessons and update user profile**
Topic	**Review lessons organized by topic ranging from transition and construction through sustainment**
Occupancy	**Click the *Occupancy Challenges* link**
Communication	**Click the *Stakeholder Relations* link**

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Recap – Lessons Learned Database

- Your experiences help others and visa versa
- It's accessible 24/7 and easy to use
- You submit directly to the database
- AFCEE and Jones Lang LaSalle enter new lessons after each PEP and site assessment cycle

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Contact your Portfolio Management experts

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